RECONNECTING AMERICA
CENTER FOR TRANSIT-ORIENTED DEVELOPMENT
436 14th Street, Suite 1005 Oakland, CA 94612
Tel: 510-268-8602 Fax: 510-268-8673

"Opportunities to Strengthen Transit-Oriented Development through the New Starts Process"

Congressional Testimony of Shelley Poticha, President
Reconnecting America

Presented before the
Subcommittee on Highways and Transit,
United States House of Representatives
September 26, 2007

Chairman DeFazio, Ranking Member Duncan and members of the Subcommittee, thank you for the opportunity to appear before you today. I am Shelley Poticha, President of Reconnecting America, a national non-profit dedicated to using transit investments to spur a new wave of development that improves housing affordability and choice, revitalizes downtowns and urban and suburban neighborhoods, and creates lasting value for our communities. We host the Center for Transit-Oriented Development, and thanks to language included by this Committee in SAFETEA-LU, receive federal funding to provide standards, guidance, and research on transit-oriented development (TOD). The Center for TOD includes a web-based resource of best practices and cutting edge research, as well as the National TOD Database, the only database of every fixed transit station in America, and we provide technical assistance to the 40 regions that either have transit or are planning to build new transit lines. We study the market for TOD and look at the impact of policies at all levels on the affordability of housing that is well-served by transit. CTOD is a partnership with two other groups: the Center for Neighborhood Technology and Strategic Economics.

Today I would like to share with you some of the larger trends that are reshaping consumer preferences, business trends and the real estate market, creating an unprecedented opportunity for the role of transit in defining the future of our communities. The way the federal transit administration evaluates proposed transit investments has a direct bearing on whether or not regions are able to fully realize the potential of these trends.

As I go from region to region, it is clear that there is a thirst for new and increased investments in transit. First of all, transit ridership is at a 40-year high; since 1990, ridership has increased 11.5% with three-quarters of the growth coming from heavy, light, and commuter rail. Mayors value transit in helping to spur urban regeneration and reduce traffic congestion. Businesses value transit because employees can get to work on time and transit is viewed as a key amenity in attracting the highly desirable “creative class” to local economies. Developers see an untapped market for housing near transit and are designing new products and new neighborhoods to meet this demand. And, communities recognize that when all the pieces come together, transit can be a powerful tool to improve quality of life and help lower costs of living.

Some of this new interest in transit and TOD is coming from the fact that the housing market in America is changing as households get older, smaller and more diverse, and as traffic makes long commutes to the suburbs less and less appealing. Indeed, “Emerging Trends in Real Estate,” a highly regarded report reflecting the views of 500 leaders in the real estate, development and investment industries has ranked sites near transit “the Number One choice for all development.”

But demographic trends are only part of the story. Regions are aggressively seeking to use transit investments to help focus growth, create a sustainable foundation for economic development and provide mobility options for residents. Take into consideration Denver. In 2004, residents of the region voted to tax themselves to build five new transit lines in 15 years. They’re making a $4.7 billion investment in their future and focusing a significant percentage of regional growth into neighborhoods around each station. Virtually every major job center will now be connected by transit and the remaining 50 stations will accept about a quarter of the region’s housing. In Orlando, the Central Florida commuter line will not only provide much needed congestion relief, but will provide the impetus for community revitalization in those towns with transit stops. The proposed Gold Line in Los Angeles is seen as a central strategy to curb sprawl in the Inland Empire and focus growth around the Claremont Colleges and a thriving medical complex. We’re seeing similar investments in the Twin Cities, Houston, Dallas-Fort

Worth, Salt Lake City, Atlanta, Sacramento, Norfolk and Charlotte, North Carolina – regions that even a few years ago wouldn't immediately come to mind as transit-based places.

A common thread in every one of these places is the recognition that transit is a powerful tool that is made more powerful when combined with proactive land use and economic development strategies.

The Federal Transit Administration and US Department of Transportation are developing the rules for allocating Federal transit dollars to fund new transit lines. These rules will have a significant impact on whether or not local efforts to use transit investment to shape future regional growth, support economic development, address environmental challenges, and enhance quality of life are successful.

Despite these encouraging trends, we hear frequent complaints about the Federal partnership:

- Funding for transit is not keeping up with demand or rising construction costs.

- The length of time, complexity and added cost of trying to navigate the Federal New Starts process is increasing and placing an undue burden on transit projects, while highway projects are given much less scrutiny.

- There is a growing concern, whether real or perceived, that including a full range of amenities, streetscape improvements, and pedestrian safety enhancements in a proposed transit project will jeopardize Federal funding. Yet these are the very features that help maximize walking trips to transit and create high value urbanism.

- Local concern over meeting the federal Cost Effectiveness Index has lead some communities to shortchange the number of transit stations, rail cars, or corridor enhancements that would help meet or even exceed 20 year ridership projections.

Our research shows that actual ridership on many recently built transit lines is higher than predicted by the FTA's Transit System User Benefit or "TSUB" model. This raises significant concerns about the substantial weight placed on these model results.

Attachment A summarizes actual versus projected ridership on a number of recently opened transit lines and new systems. The overall data show that the majority of recent rail lines built with Federal funding through the New Starts program are performing at least as well as pre-construction projections. Some lines, such as Minnesota's Hiawatha Light Rail and the Metro Red Line in Houston are outperforming their ridership estimates 15 years ahead of projections. It is interesting to note that some of these lines would not have been funded if rated solely on their Cost-Effectiveness rating. For example, the Hiawatha Line received only a low-medium Cost Effectiveness rating. This presents both good and bad news.

The good news is that over performing lines give transit agencies and communities the momentum and political capital to expand their transit systems to benefit more of the region. The bad news is that these over performing lines indicate that cost reductions in the planning stage are resulting in a shortage of transit vehicles, parking spaces, inadequate tracking or maintenance facilities or may have contributed to a downgrading of technology. Ridership numbers are the primary input into the TSUB model used by the FTA to compute cost effectiveness. If we can not trust them to be more accurate, how can we expect to make multi-million dollar decisions using them as the basis? And should they be the basis for primary decision making?

FTA staff has noted that there are indeed problems with this model's ability to accurately estimate ridership, particularly as more and more riders are walking to transit, not just driving to transit. I postulate that the sea change in the real estate market – the unprecedented interest in dense, walkable neighborhoods around transit stations – cannot be accurately predicted by the FTA model alone and this is one reason why actual ridership is higher than expected. Giving the primary weight in the evaluation process to the results of the TSUB model in the New Starts evaluation process may lead to inaccurate results and seems unwise.

I strongly commend Congress, through SAFETEA-LU, for its work to raise the significance of land use, and add economic development to the list of project justification criteria. These are not insignificant changes. They recognize what we know about the potential power of transit investments to generate a host of benefits, beyond cost and travel time savings.

The law does not require a quantitative or predictive approach to measuring land use and economic development, but rather elevates their weight in the justification and review of proposed transit projects seeking federal funding. Such an approach is similar to that taken by Canada and the United Kingdom in allocating their national transportation funding. Those two countries give much stronger consideration in their analysis to a full range of benefits including environmental impacts, specifically the reduction of greenhouse gas emissions, and for Canada, consideration of economic development benefits as measured by public/private rates of return. I find it curious that other countries, and indeed American developers, companies and even local economic development agencies can separate and evaluate land use and economic development, but our federal government appears at a loss.

Last fall, in response to requests by FTA for specific guidance on how economic development could be evaluated and defined apart from the land use criteria, our Center for Transit-Oriented Development commissioned research on the topic and convened several meetings with academics, practitioners, and economists. In this work we found that there are different definitions of the term "economic development" and these definitions impact how the government looks at potential economic development benefits as a factor when evaluating transit projects. FTA could play an important role in helping to clearly define economic development benefits in the context of transit investments, and through the New Starts evaluation process give greater weight, guidance and direction to help local communities identify implementation strategies for linking transit investment, housing and economic development policies and funding. These practices are termed value capture, and reflect the opportunity to leverage the transit investment to create economic value that can help provide one-going revenue streams for transit agencies and local governments.

Strictly-defined from a traditional economist's perspective, economic development is the measure of productivity derived from a specific investment – a difficult and abstract concept. The practitioners' definitions encompass the much easier to measure realm of real estate development, employment gains, access to jobs, concentration of economic activity and return-on-investment. This approach can include the capitalization of user benefits (e.g. users expending less on transportation costs and travel time which can be spent on other goods and services), redistributive economic development benefits represented through revenue generation from increased property values and ridership, and the benefits of agglomeration, or the potential for increased business transactions due to densification and proximity of uses. There are a number of proxies that could be used to evaluate potential economic development impacts of transit investments, ranging from housing, employment and population projections to developer agreements, local financial contributions to the corridor and targeted public finance tools such as Business Improvement Districts and tax increment financing. In short, we believe that there are a number of commonly used indicators of economic development that could be incorporated into the transit project evaluation process.

Why is a focus on economic development and land use so critical?

The Center for Transit-Oriented Development has estimated the demand for housing near transit to increase to almost 15 million U.S. households by the year 2030, roughly a quarter of all renters and buyers, and a more than doubling of demand from the 6 million households that live near transit today. This is a tremendous potential increase. If we are to come even close to achieving it, we need more transit investment and we need to reduce regulatory barriers that still make mixed-use, more compact development illegal in many communities. In addition, we need to maximize opportunities to leverage public resources and reduce the funding and bureaucratic silos between housing, transportation, and economic development.

In addition to strengthening the focus on transit's role in leveraging and spatially focusing economic development, I'd also like to highlight some of the social equity needs of transit-supportive land use policies. A recent report funded by the Ford Foundation and prepared by our

Center for TOD finds that neighborhoods near transit already support more racial and economic diversity than the average census tract, and that they are home to a greater share of a region's lower-income households. The data also shows that in three-quarters of these "transit zones" – defined as the half-mile radius around stations -- households have one car or no cars. This low-rate of auto ownership indicates that residents do realize the cost-savings that comes from lower auto ownership. Our work, sponsored by the Brooking Institution, found that while the average American family spends roughly 19 percent of its household budget on transportation, households with good access to transit spend just 9 percent.

But as the demand increases and the market heats up for land and housing in these neighborhoods, the threat of displacement is very real, forcing households to lose potential affordable transportation and affordable housing options if they are pushed out of transit accessible neighborhoods.

One way to ease affordability pressures and keep rents and home prices down is to increase the overall supply of housing near transit. If more mixed-income housing is built near transit, displacement pressures in desirable neighborhoods could lessen. Another option is to increase the amount of frequent transit that is available in regions. Thus, the rules that we use to evaluate proposed transit projects should not get in the way of building transit.

In 2005, the Federal Transit Administration (FTA) and the US Department of Housing and Urban Development (HUD) commissioned their first collaborative research effort to examine the linkages between transit-oriented development and the effectiveness of strategies to ensure mixed-income housing near transit. My organization led this research effort, and earlier this summer released the final report, called *"Realizing the Potential: Opportunities for Expanding Housing Near Transit."* We examined five case study regions – Boston, Massachusetts; Charlotte, North Carolina; Denver, Colorado; the Twin Cities, Minnesota; and Portland, Oregon – and their proactive strategies to create and preserve mixed-income housing near transit. The study was cited in the FY08 House Transportation, Housing and Urban Development Appropriation's Committee Report, including a recommendation to continue the work of the initiative.

The Federal New Starts and Small Starts program sets the rules for engagement in how communities coordinate proposed transit investments with larger regional decisions about population growth and economic development. Our nation is facing significant challenges to maintain our economic competitiveness, address global climate change, meet the demands of projected population growth, and preserve our quality of life. Expanding the number of regions with high quality transit, and growing existing transit systems is critical to achieving these goals. Congress has recognized the importance of these issues by ensuring that federally-funded transit projects are financially sound, cost-effective, leverage economic development and include transit-supportive land use policies. These criteria help put America on the path to success.

I urge you to remain steadfast in your intent to implement this Congressional directive. We need a strong partner for communities trying to create new transit investments that provide residents with greater transportation choice, use transit as a development strategy, and promote more travel options that reduce greenhouse gas emissions. We cannot afford a Federal transit policy that may result in less transit being built, or that makes it more costly and uncertain to obtain Federal funding.

The Center for TOD would welcome the opportunity to work with FTA to make progress in identifying strategies to give greater clarification and weight to economic development, land use and transit-oriented development in the New Starts evaluation process.

Thank you very much for this opportunity to appear before the Committee today.

Attachment A

Table A. Projected versus Actual Ridership on New Rail Lines

System	System/Line Start	Estimate	Estimated Year	Most Recent	Date
Denver System (Pre SE^)*	1994#	22,000	2015	37,400	Q3 06
Salt Lake City System*	1999	34,600	2010	47,900	Q3 06
St. Louis System**	1993	86,340	2020	88,000	8.07
Houston Main Street*	2004	33,100	2020	40,000	Q3 06
Minneapolis Hiawatha*	2004	24,800	2020	34,000	Q3 06
Sacramento Folsom Ext.	2005	3,154	2015	6,455	10.06
Tacoma Link	2003	2,000	2010	2,873	Q1 07
Portland Westside Max*	1998	27,100	2005	32,700	10.05
Portland Streetcar	2001	3,200	2001	8,800	10.06
St. Louis St. Clair Ext Line*	2001	13,502	2010	14,083	11.03
Denver Southeast Corridor*	2006	38,100	2020	33,323	3.07
NJ Riverline	2004	5,900	2004	7,700	Q4 06

* New Starts Estimated Project
** Projections for 2020 done in conjunction with estimations for 2006 Cross County Line, not a New Start
\# Projections for Denver System made with Southwest & Platte Valley Extensions built in 2000 and 2002 respectively
^ Southeast Corridor Completed in 2006